

**Written Testimony of Steve Case  
Chairman and Chief Executive Officer  
America Online, Inc.**

**Introduction**

Chairman McCain, Senator Hollings, members of the Committee, thank you for the opportunity to appear before you today and for the opportunity to discuss the important issue of how the future of the Internet is going to develop as we move to a broadband world. I commend you for holding this hearing as I believe the issues before you are critical to the future of the American economy and society and I believe that you have a critical role to play in helping to guide us down a path of success.

**A Virtual Field of Dreams**

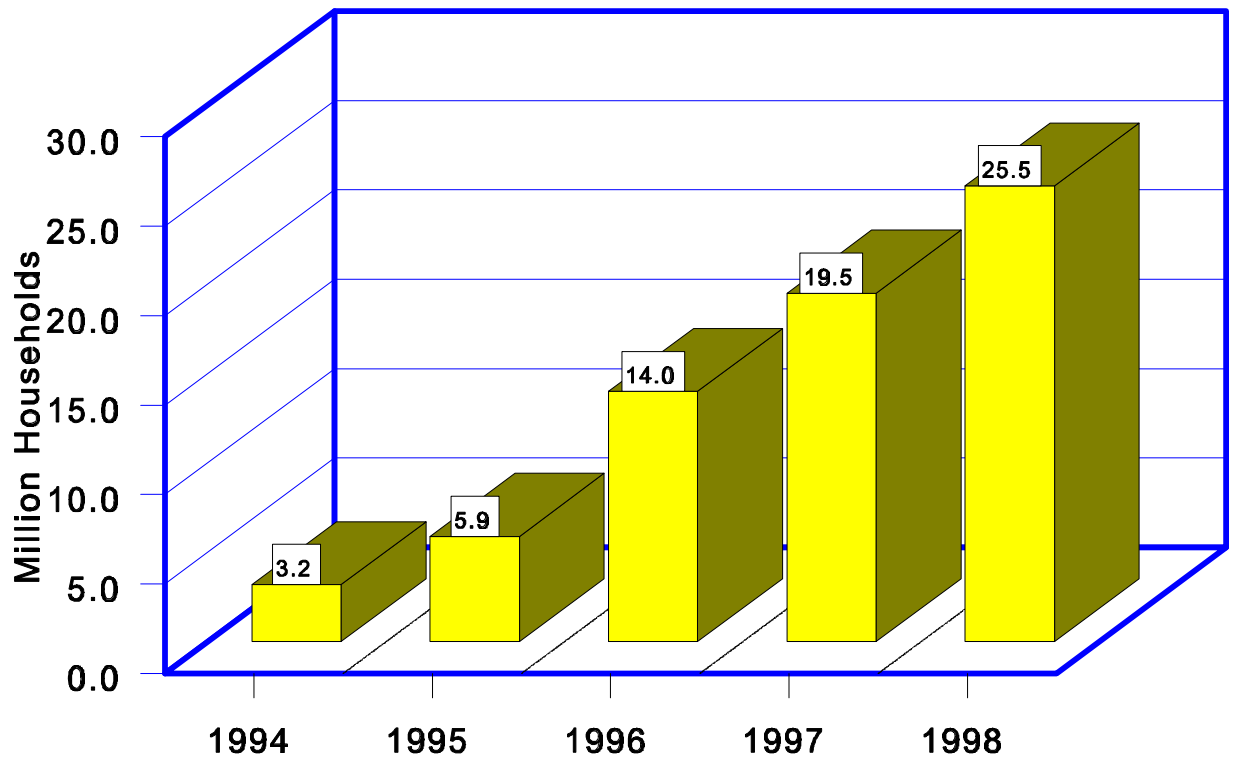
Today, the Internet is a true Field of Dreams. Untold numbers of new entrepreneurs have discovered that if they build something -- a Web site, a business, or a new access service -- thousands, even millions, will come. Always open for business, always open to new ideas, the Internet is perhaps the most dynamic force in our society and economy today.

More than half of American households -- a total of 53 million -- now own PCs. And about one-third of U.S. households have access to the Internet. Every month now, nearly 1.5 million Americans join the online world for the first time, bringing the percentage of the US population online from nearly zero percent in 1990 to 30 percent today. In 5 years, nearly 60 percent of Americans are expected to be online. And, analysts are predicting that by 2002 consumers will spend nearly \$43 billion a year online, compared to almost \$8 billion last year.. Indeed, the number of online households in the United States grew by a factor of eight between 1994 and 1998. [See Figure 1.] This same rapid growth path can be seen throughout the world where the number of online users is expected to reach 248 million by the year 2002. [See Figure

2.] As one would expect with all of these users online, traffic on the Internet is doubling every 100 days, according to the Department of Commerce.

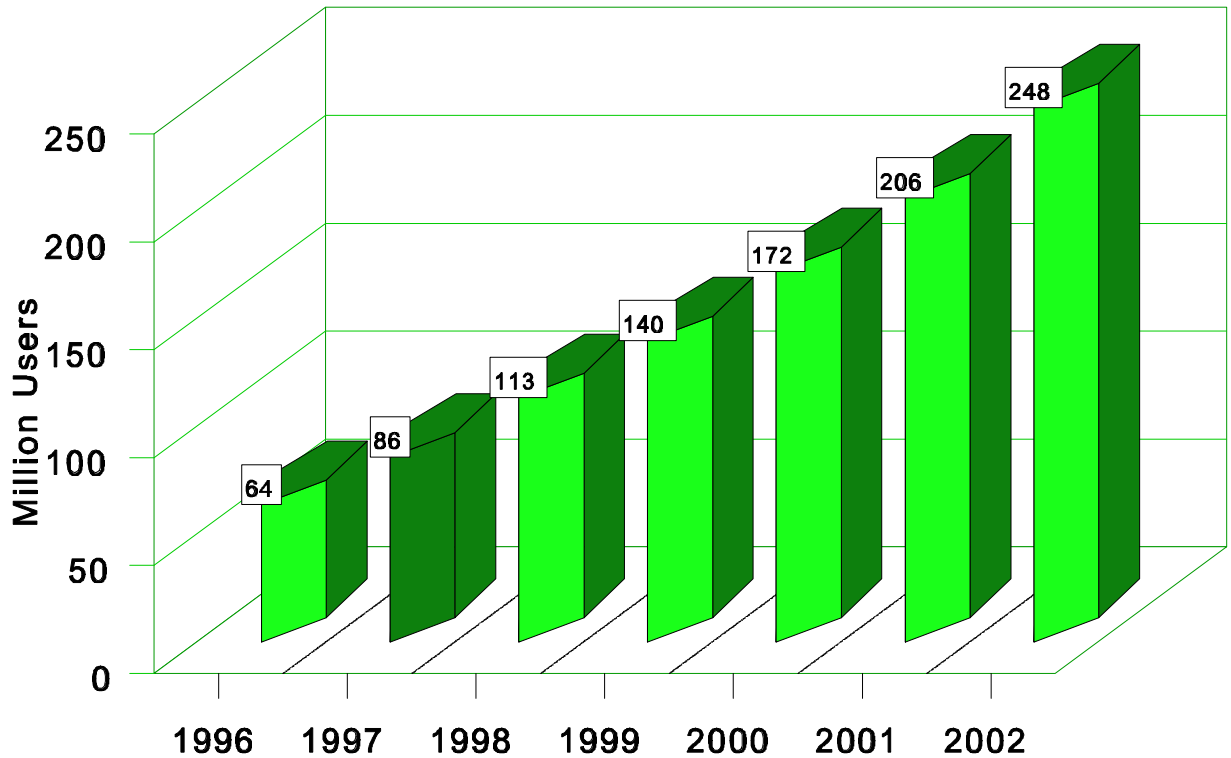
**Figure 1**

## U.S. Online Households



Source: Paul Kagan Associates, Inc., "U.S. Internet Access & Consumer Web Retailing Projections, '94-'07 [10/98]," adapted by Strategic Policy Research, Inc.

**Figure 2**  
**World Online Users, 1996-2002**



Source: Jupiter Communications, World Online Users by Region, 1996-2002, "Internet Business Report, Consumer Internet Economy Monthly," Jupiter Watch, September 1998, adapted by Strategic Policy Research, Inc.

Importantly, the people coming online today increasingly represent a true cross-section of American life -- senior citizens wanting to see online photos of their grandkids, young couples seeking to save time by managing their finances and investing online, and small businesspeople looking to market their wares across the world.

For these Americans, the Internet is revolutionizing their daily lives -- changing the way they communicate, learn, shop, and do business -- probably forever. With more e-mail being

sent today than regular mail, I'm sure it's even revolutionizing the way your constituents communicate with you, and how you communicate with them.

So, as this Committee meets today to examine how residential broadband Internet access will change this new medium and industry, I want to suggest that we look at this issue not in terms of technology or telecommunications law or economic investment models, but in terms of what's right and best for consumers.

The issue is whether consumers will benefit from the swiftest possible deployment of emerging broadband technologies. And whether consumers will enjoy the kind of choice, innovation, and convenience they have today when broadband becomes widely available.

In assessing what policies will best serve consumers in residential broadband services, I think it is important to look first at why the Internet marketplace is working so well today to produce innovation in consumer services.

The competitive marketplace exists because of sound public policy requiring that the infrastructure upon which the Internet rests -- a patchwork of local phone lines -- is open and equally available for purchase to all competitors. Anyone who wants to go into the Internet service business can do so by calling the local phone company and buying a handful of business lines. The openness and competition in today's Internet marketplace have truly made the consumer "king." As a consequence, consumers and competition, not regulation, have determined success in the marketplace.

Competition among thousands of companies offering Internet access is helping to accelerate the hypergrowth of the medium. Consumers have a range of choices, from full online services like AOL, to straight, no-frills access to the Web -- all with different price plans, features

and services. There are an estimated 5,000 Internet Service Providers (ISPs) in the United States. That choice and the competition it has stimulated are the hallmark of the Internet industry today.

One of the greatest benefits of the openness of the ISP marketplace is the fact that in almost every area of the country – from the smallest rural community to the largest city – consumers have a choice of ISPs. They can choose from national providers like AOL and Mindspring and from smaller providers that tailor their services to niche communities. A snapshot of the status of the Internet in terms of households online, available ISPs and Internet-related jobs (in 1996) is provided for each of the states represented by members of this Committee in Figure 3.

I believe that these figures make clear that the Internet truly is changing the lives of Americans all over our nation and that geography is becoming less and less important in terms of economic development.

**Figure 3**  
**Internet Statistics, Selected States**

	<b>Households Online (1)</b>	<b>ISPs Located in State (2)</b>	<b>Additional ISPs Serving State (3)</b>	<b>Internet-Related Jobs in 1996 (4)</b>
Alaska	n/a	10	20	3,243
Arizona	34.1%	57	144	31,061
Georgia	39.6%	48	153	102,893
Hawaii	n/a	12	31	6,309
Kansas	32.9%	38	95	21,413
Louisiana	26.3%	36	132	17,966
Maine	36.7%	21	118	4,763
Massachusetts	42.1%	40	199	86,073
Michigan	30.6%	110	206	68,398
Mississippi	27.0%	17	140	10,048
Missouri	29.4%	72	144	53,466
Montana	27.9%	18	94	3,448
North Dakota	24.4%	9	111	3,957
Nevada	30.6%	24	134	10,004
Oregon	31.7%	67	169	23,148
South Carolina	35.5%	32	137	18,117
Tennessee	27.6%	41	162	26,169
Texas	34.3%	179	193	183,823
Washington	38.0%	122	181	56,939
West Virginia	21.8%	15	109	8,721

Source: (1) Forrester Research, Inc., March 1999; (2), (3) *Boardwatch Magazine*, "Directory of Internet Service Providers," Winter 1998-Spring 1999. (4) Cyberstates Study Update, 1998

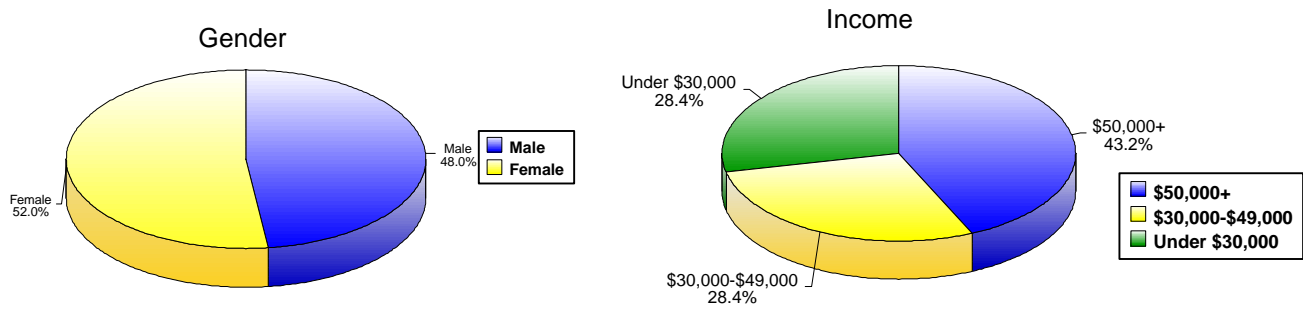
In addition, a recent survey of new Internet users by the Pew Research Center of The People & Press provides some interesting demographics that show how widely diffused Internet usage has become:

- 52 percent of users are female; 48 percent of users are male;
- 28 percent of users have incomes under \$30,000;
- Roughly 47 percent of users, use the Internet for work or a mixture of work and pleasure;
- While the majority of new users are age 30-49, over 20 percent are over the age of 50.

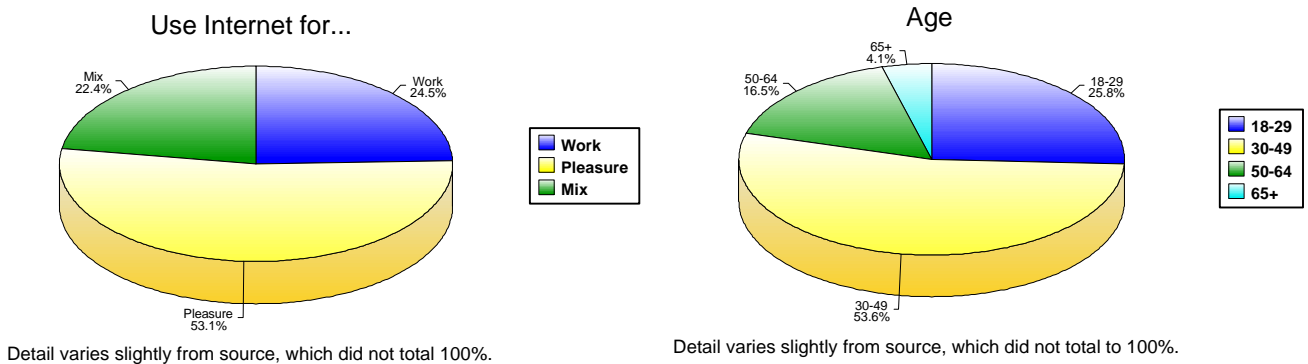
[See Figure 4.]

**Figure 4**

## Profile of the New Internet User



Detail varies slightly from source, which did not total to 100%



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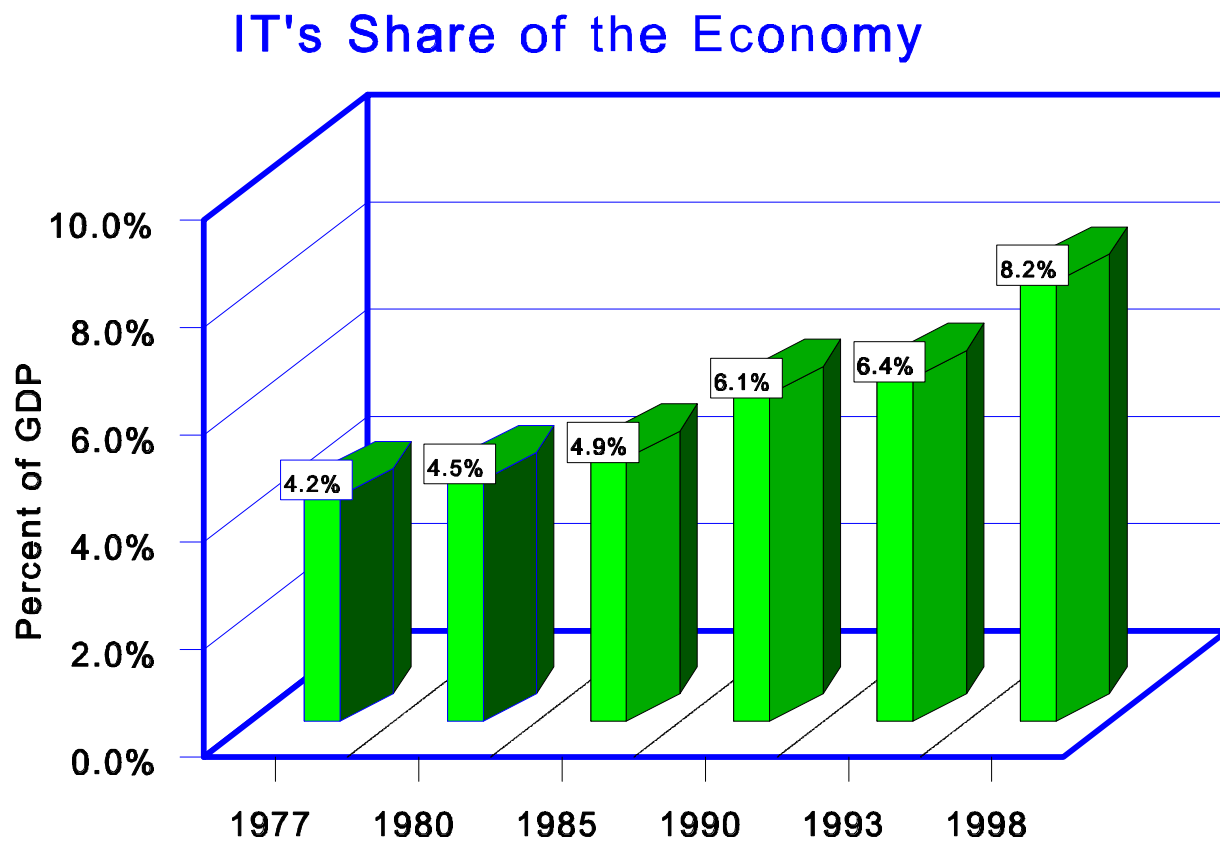
Source: The Pew Research Center for The People & Press (<http://www.people-press.org>), adapted by Strategic Policy Research, Inc. Reflects results of winter 1998 survey of users reporting starting Internet use within prior year.



## The Engine of New Economic Growth

Meanwhile, the robust Internet marketplace created 1.1 million jobs throughout the world in 1996 alone, of which 760,000 were estimated to be in the United States. In 1998, it was estimated that Internet-related jobs and sales accounted for \$30 billion, which is larger than most national economies. The Department of Commerce estimated that information technology accounted for 8.2 percent of U.S. GDP in 1998 with the Internet leading the way. [See Figure 5.]

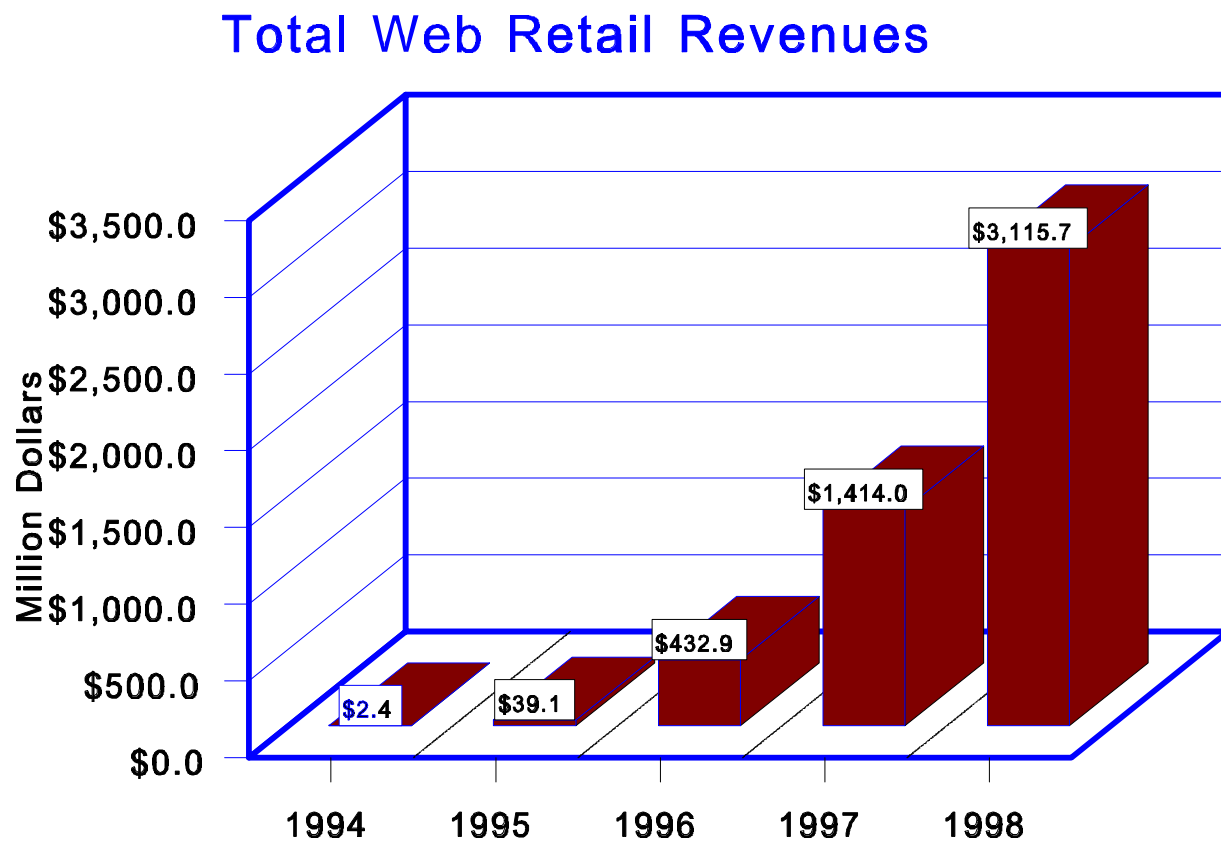
Figure 5



Source: Lynn Margherio, *et al.*, *The Emerging Digital Economy*, U.S. Department of Commerce, April 1998, at 4 (estimate based on Bureau of Economic Analysis and Census data), adapted by Strategic Policy Research, Inc.

And the story is just as exciting when you look at online advertising and marketing. Last year, U.S. companies spent \$2 billion of their advertising and marketing budgets online, twice what they spent the previous year. Total web retail revenues have grown from \$2.4 million in 1994 to over \$3 billion by 1998. [See Figure 6.] The average household spent \$441 online in 1998 up from \$75 in 1994. [See Figure 7.] By 1998, it was estimated that 34 percent of households were making online purchases. [See Figure 8.]

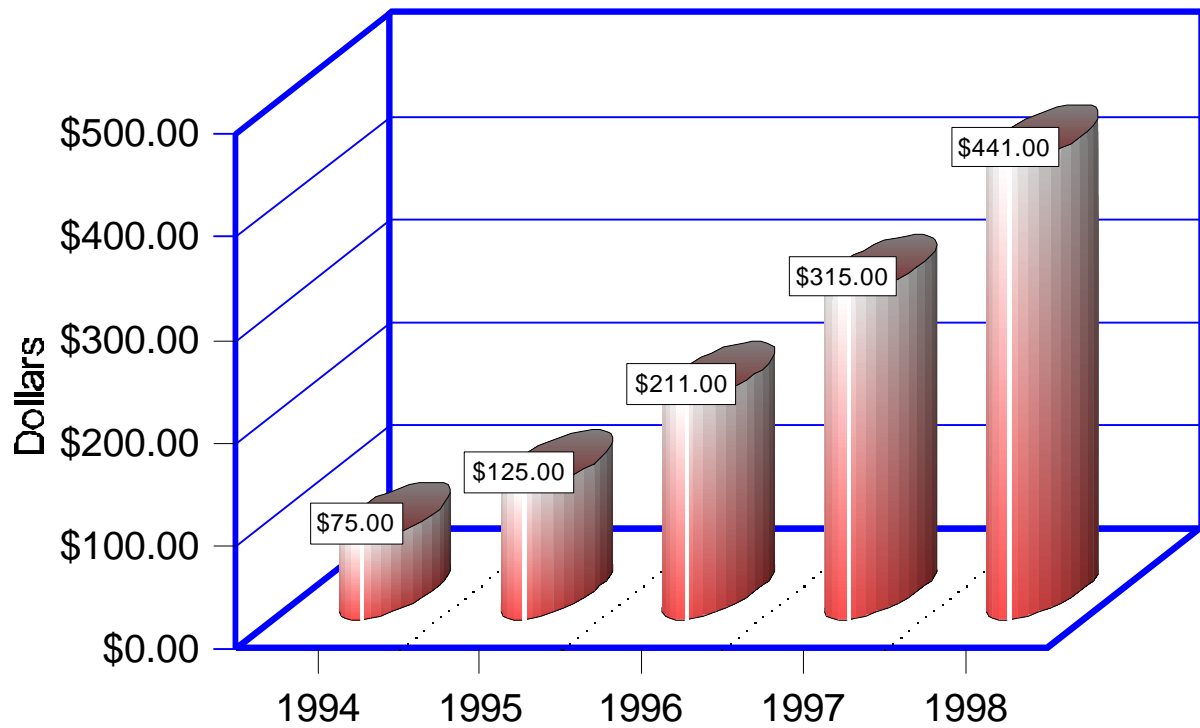
**Figure 6**



Source: Paul Kagan Associates, Inc., "U.S. Internet Access & Consumer Web Retailing Projections, '94-'07 [10/98]," adapted by Strategic Policy Research, Inc.

**Figure 7**

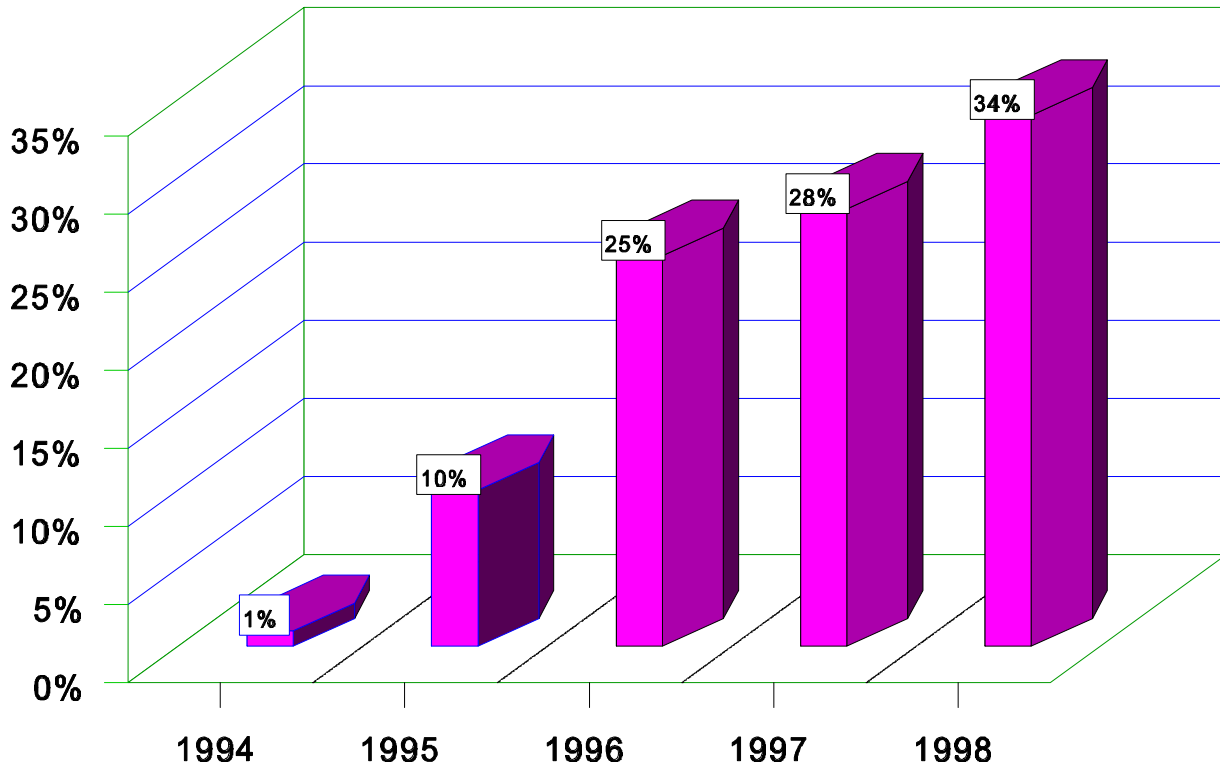
## Amount Spent Online per Year per Household



Source: Paul Kagan Associates, Inc., "U.S. Internet Access & Consumer Web Retailing projections, '94-'07 [10/98]," adapted by Strategic Policy Research, Inc.

**Figure 8**

### Percent of Households Making Online Purchases



Source: Paul Kagan Associates, Inc., "U.S. Internet Access & Consumer Web Retailing Projections, '94-'07 [10/98]," adapted by Strategic Policy Research, Inc.

### The Benefits of an Open Model

Today, this committee is focused on what the future of the Internet will look like and on what role government should play, if any, in ensuring the continued expansion of Internet access and the swiftest possible deployment of new broadband technologies, which promise to make today's dial-up Internet experience faster, richer and more convenient than ever.

It is my belief that consumers have come online in droves in recent years because the open, competitive Internet marketplace has made it easy and economically feasible to do so. If we want to nurture the future growth of the Internet and continue to enjoy the tremendous opportunities it brings to our nation and the world, we must preserve and protect the principles that have made the Internet great -- openness, competition and innovation.

In today's dial-up marketplace, the Internet itself is open, free and unregulated. The infrastructure upon which the Internet rests, a patchwork of local phone lines, is by law open and equally available for purchase to all competitors.

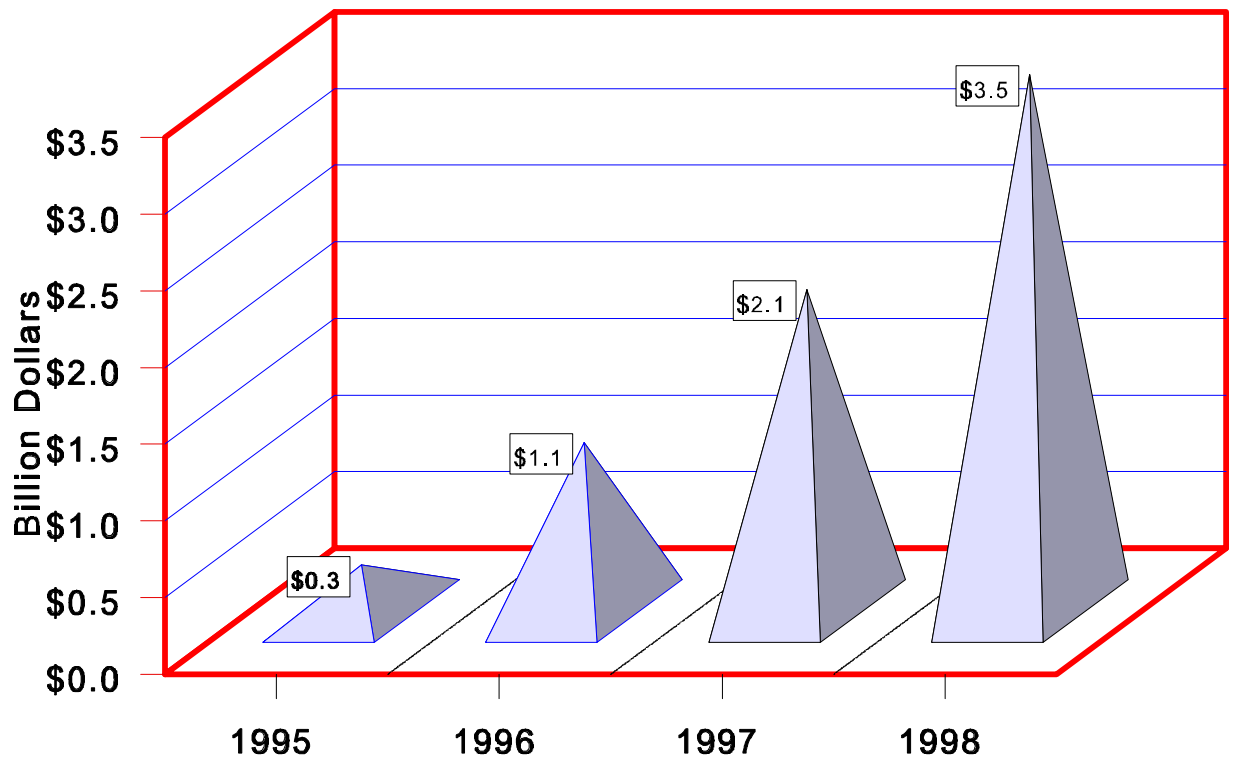
The result? Anyone who wants to go into business related to the Internet can do so. That new entrepreneur can decide to offer consumers whatever kind of service he or she wants to sell - from a cut-rate access only option to a deluxe, end-to-end service. The choice is the entrepreneur's. And it's up to consumers whether that new offering will succeed or fail in the marketplace.

Thousands of ISP's, scores of search engines and portals, and millions of Web sites have been built on this low-cost, low-barrier-to-entry, open model, creating an unprecedented rush of business opportunity and investment in this new industry. For example, Internet venture capital increased from \$3 million in 1995 to \$3.5 billion in 1998.

By any measure, the success of the open model in inducing investment at every level is clear. The following five tables show that the open model has resulted in substantial investment in telecommunications services and telecommunications equipment, as well as in ISPs, portals and e-commerce generally. [See Figures 9, 10, 11, 12, 13 and 14.]

Figure 9

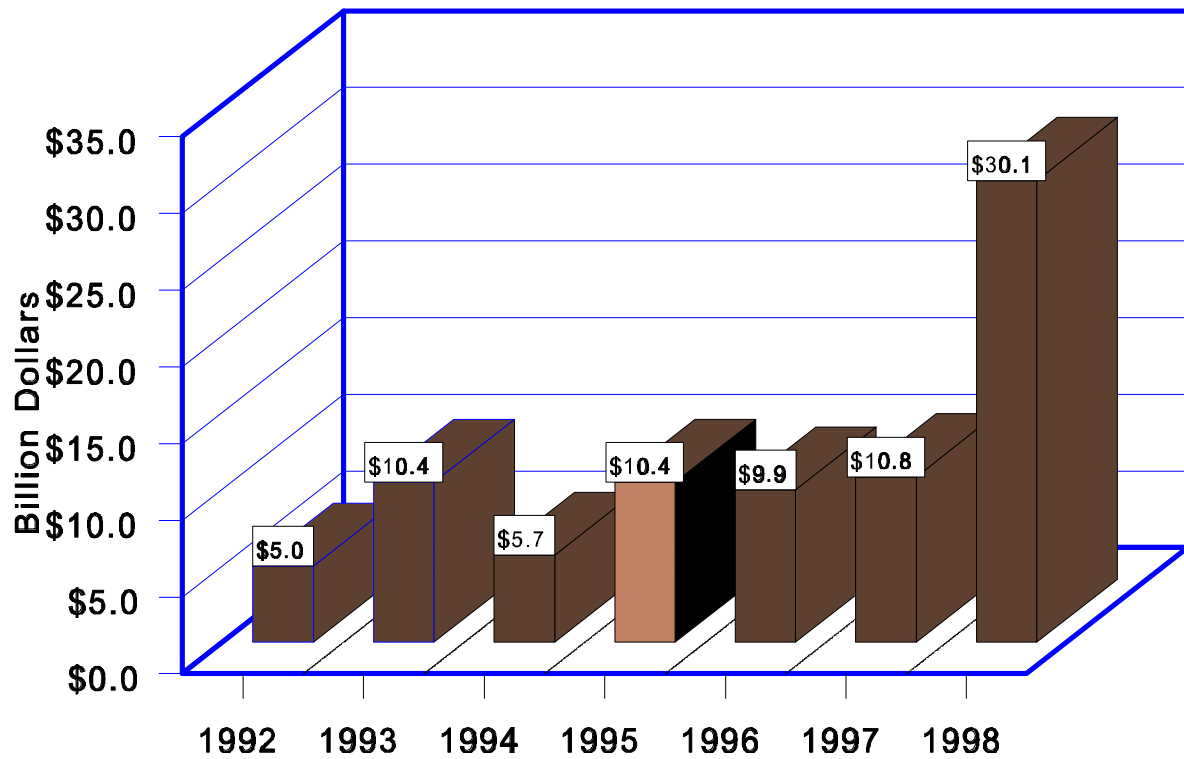
## The Rise of Internet Venture Capital



Source: "Metrics: Net Gets One-Quarter of All VC Funding," *The Industry Standard*, March 15, 1999, at 46, adapted by Strategic Policy Research, Inc.

**Figure 10**

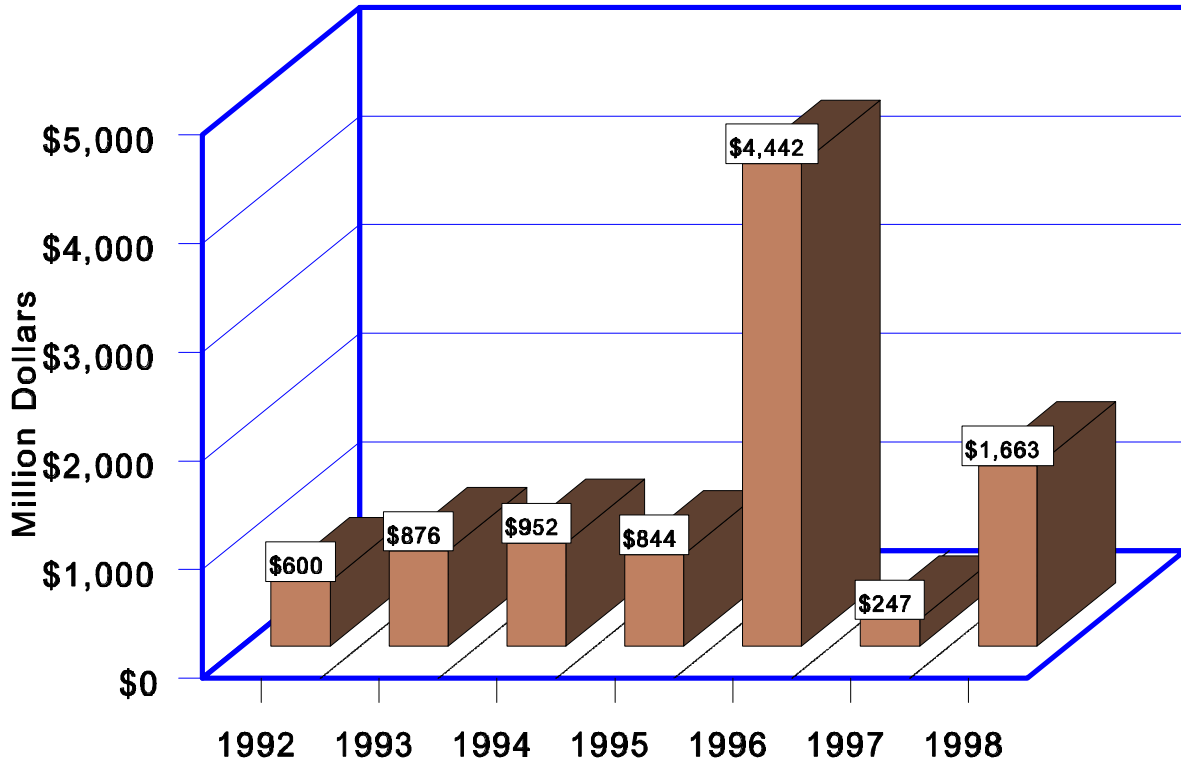
## Investment in Telecommunications Services



Source: Thomson Financial, 3/99, adapted by Strategic Policy Research, Inc.

Figure 11

## Investment in Telecommunications Equipment Providers

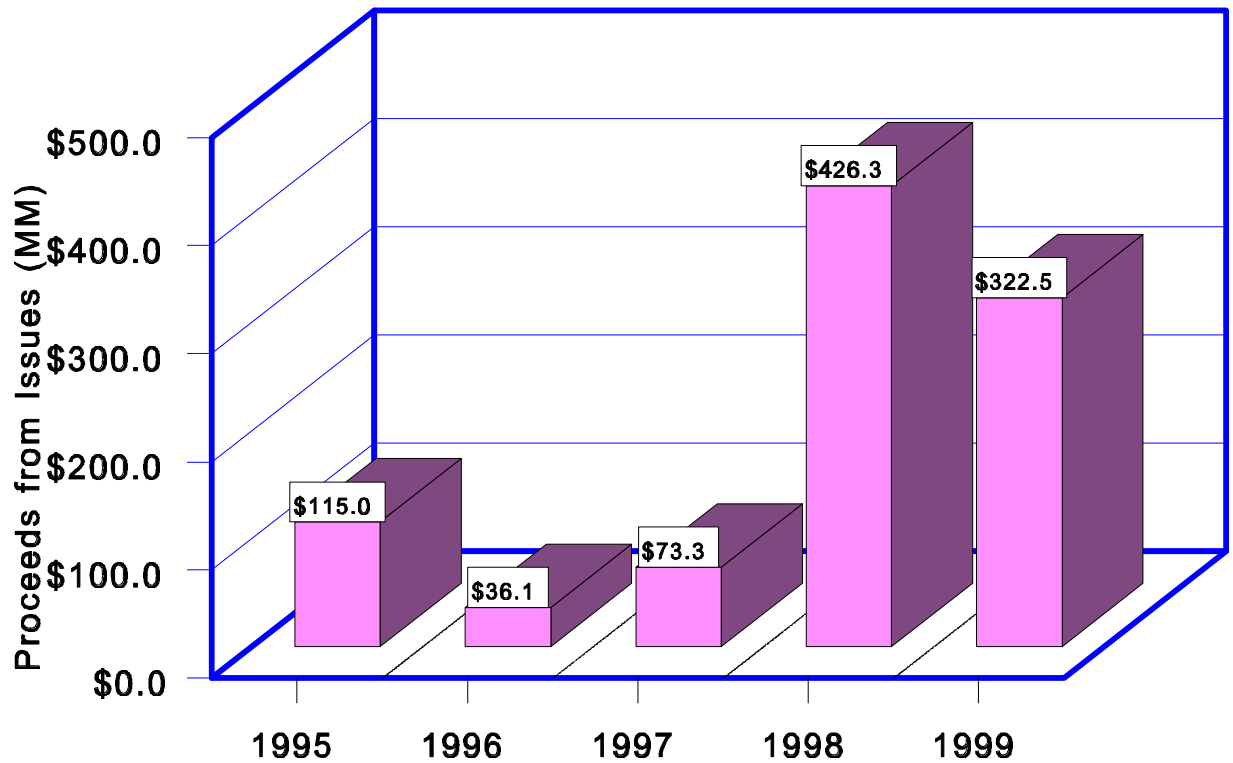


Source: Thomson Financial, 3/99, adapted by Strategic Policy Research, Inc.



Figure 12

## Summary of ISP Investment



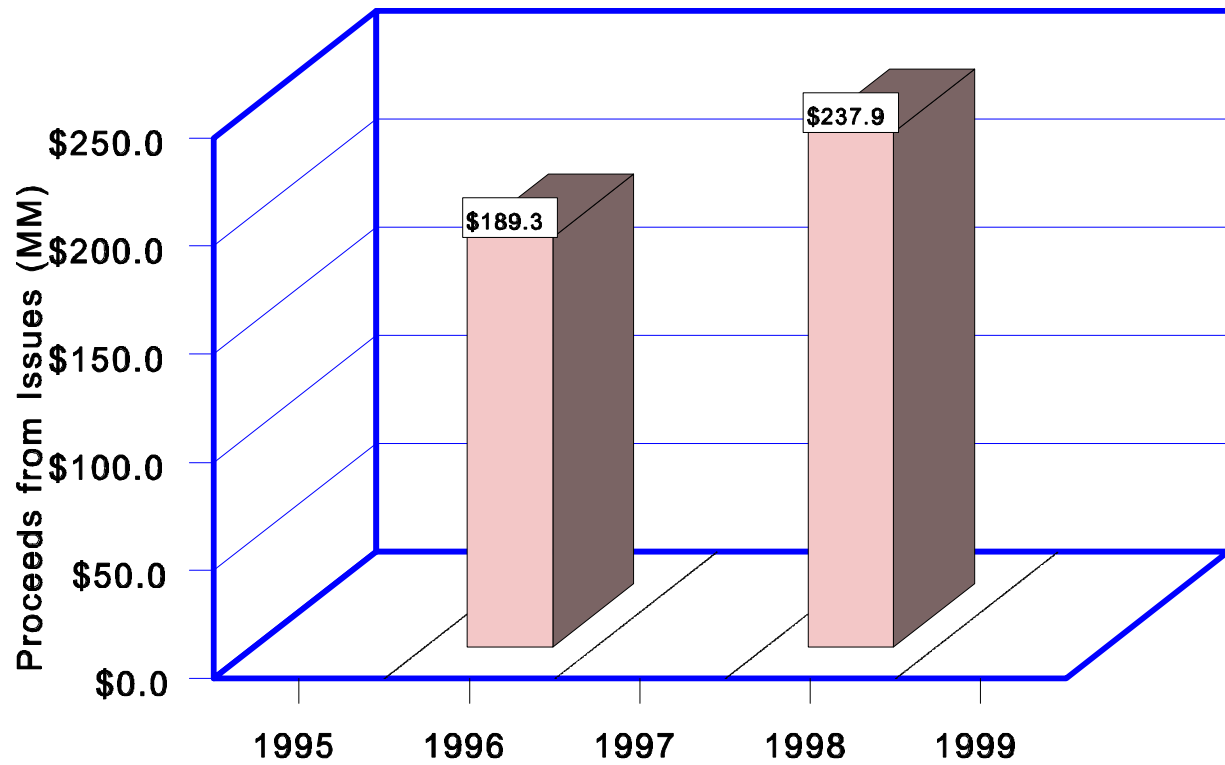
Issues: 1995 — 1; 1996 — 2; 1997 — 2; 1998 — 4; and 1999 — 2.

Note: ISP group includes Earthlink, Mindspring, Prodigy, PSINet and @Home.

Source: Thomson Financial, 3/99, adapted by Strategic Policy Research, Inc.

Figure 13

## Summary of Portals Investment



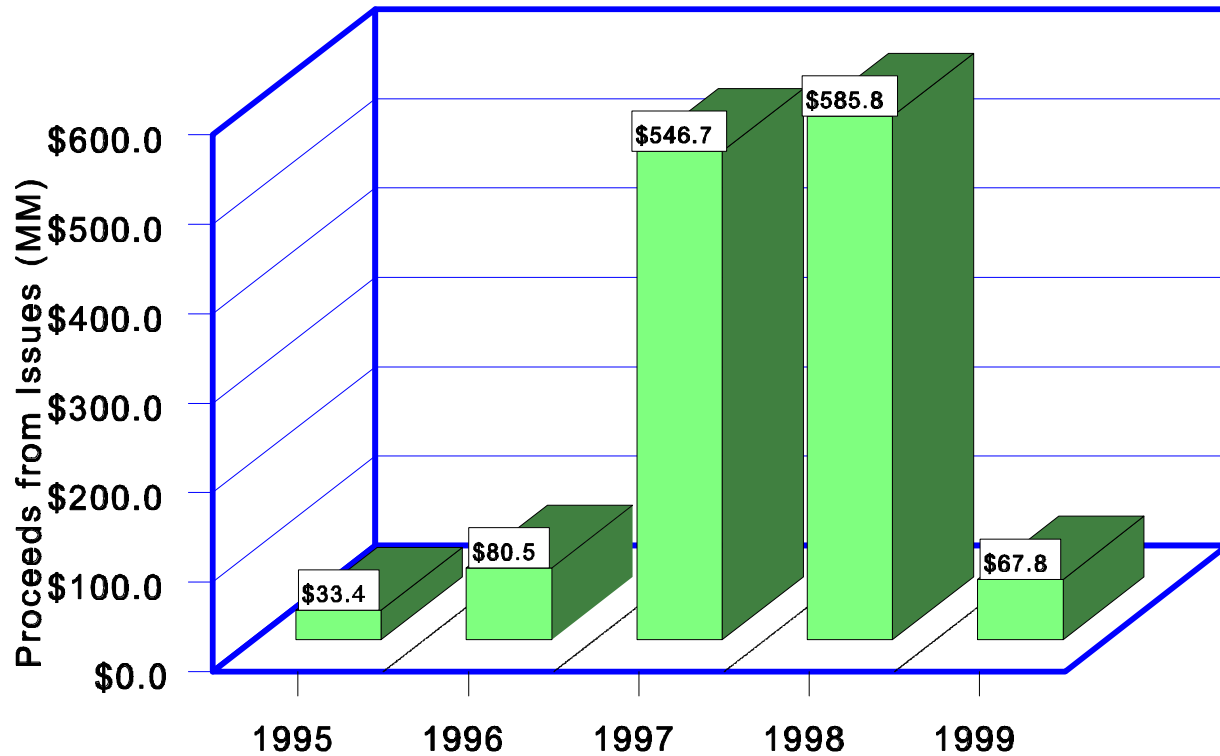
Issues: 1996 — 5; and 1998 — 3.

Note: Portals group includes Yahoo, Excite, Infoseek, CNET and Lycos.

Source: Thomson Financial, 3/99, adapted by Strategic Policy Research, Inc.

Figure 14

## Summary of E-Commerce Investment



Issues: 1995 — 2; 1996 — 2; 1997 — 8; 1998 — 10; and 1999 — 1.

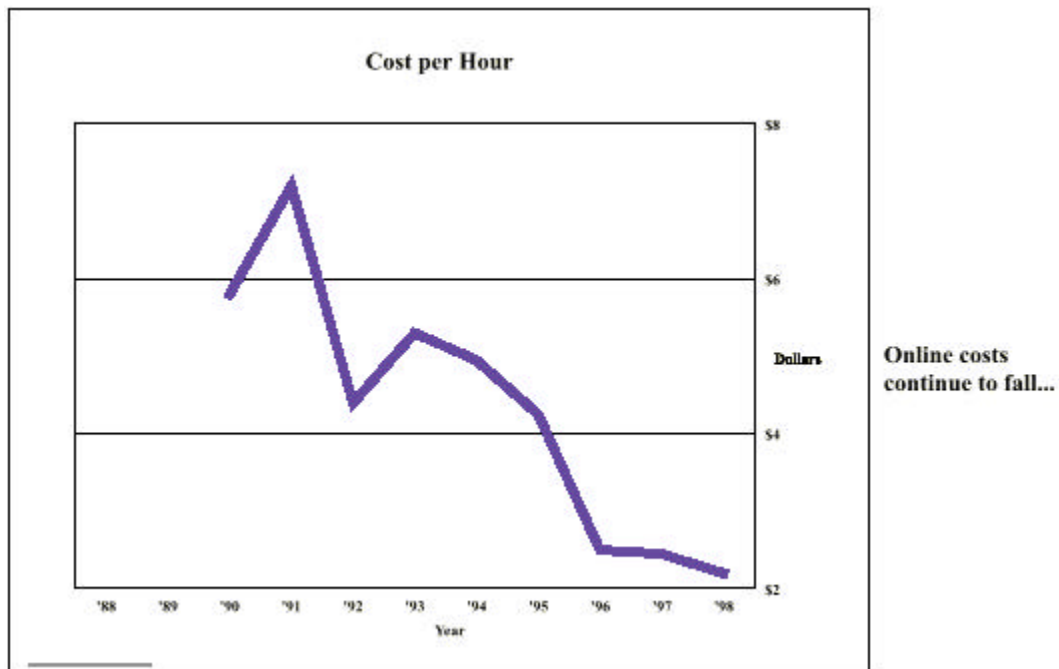
Note: E-commerce group includes Amazon, Ameritrade, Broadvision, CD Now, Cyberian Outpost, Digital River, Ebay, Egghead, E-Trade, N2K, OnSale, PeaPod, Preview Travel and UBID.

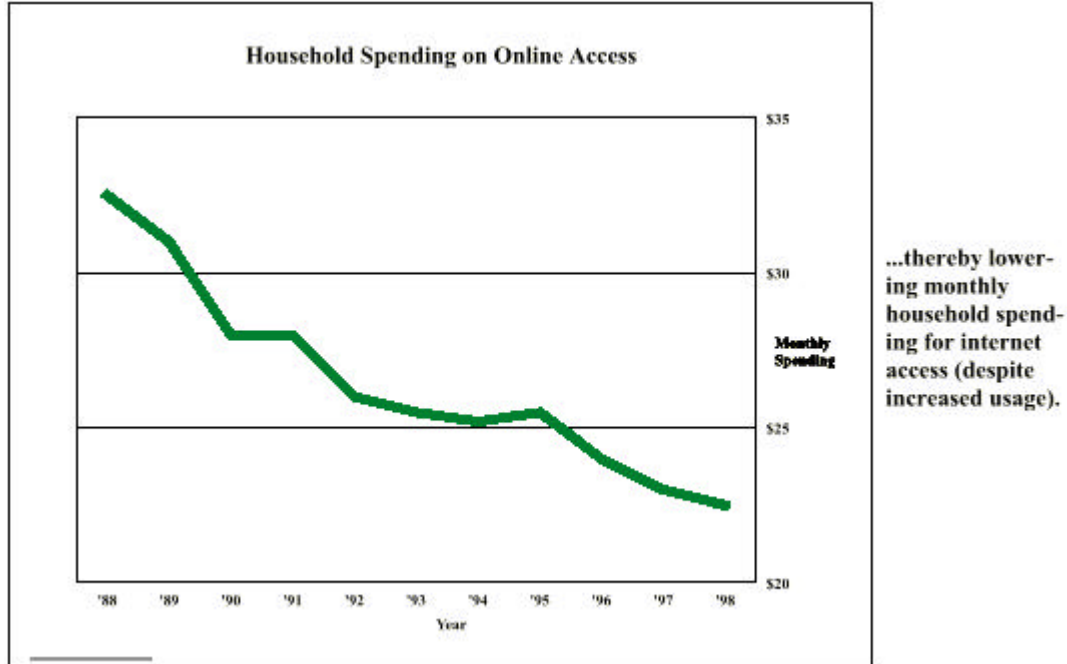
Source: Thomson Financial, 3/99, adapted by Strategic Policy Research, Inc.

The benefits of the open model can be measured, too, in terms of the unprecedented diversity of content available to Internet users. The key here is that the customer is able to access the information sources that he or she values the most. No entity serves as the gatekeeper.

Finally, the open model has resulted in steadily declining prices for Internet access which has, in turn, helped to drive penetration. Figures 15 and 16 illustrate the decline in prices for Internet access nationwide, even as time spent online increases.

Figures 15 & 16





## Concerns About the Broadband Future

As this Committee has recognized by holding these hearings, we are on the verge of a new era in the Internet. It will be an era marked by the increased demand for broadband delivery of Internet services, including real-time downloading of video, audio (including music), and large data files. The underlying technology -- the new information infrastructure -- is just now beginning to be deployed.

While there may someday be multiple technologies capable of delivering broadband Internet connections to homes nationwide-- like wireless and satellite--today there are only two technologies: DSL and cable.

Two may be better than one, but two is not enough to ensure a competitive marketplace.

This Committee knows what consumers paid for wireless service when there were only two cellular companies licensed by the FCC in each market. And we can see what has happened to prices, service quality, availability of new features and customer service as that number has expanded from two to five or six in most markets with the addition of the various PCS licenses.

Because the regulatory framework for cable and telephony have developed differently, consumers wanting broadband Internet service will have vastly different experiences depending on which of these technologies they use to make their connection.

Today, broadband Internet access over phone lines is being sold by telephone companies to Internet service providers the way today's dial-up lines are sold -- providing for an open, competitive environment in which consumers have a range of service choices.

The cable industry, however, is making Internet access available under much different terms. To date, cable has not permitted competing Internet services to buy access to their broadband lines. Instead of offering consumers choice, cable is requiring consumers who want a high-speed cable connection to the Internet to buy the Internet service affiliated with the local cable company -- even if they have another Internet service they like and want to keep.

What does this all mean? Two wires into the home for Broadband Internet access -- one that is open to competition and one that is closed, one that allows for new market entry and one that seeks to prevent it, one that offers consumer choice and one that denies it.

Broadband Internet access is capable of creating a whole new world filled with incredible possibilities for the consumer online experience. To fulfill this incredible potential, we will have to be prepared to answer several important questions:

First, how can we ensure that consumers can obtain high-speed Internet service from the provider of their choice -- regardless of which broadband technology happens to be available to their home?

Second, how can we ensure that success in the broadband Internet marketplace will be determined by the power of an entrepreneur's idea, lower prices and better service, and not by ownership of the wire into their home?

And third, how can we ensure that there is parity between the regulatory structures governing the two wires into the home -- so that consumer choice, not the government, determines winners and losers in the marketplace?

The history of the Internet has demonstrated that competition and innovation will flourish as long as the infrastructure on which the Internet rests is open and accessible to all comers.

If the broadband infrastructure is open and unfettered, then barriers to entry will remain low, new investments will continue to pour in, competition and innovation will flourish, and the Internet will continue to grow. If the infrastructure is closed to competition, consumers lose their ability to choose, and there will be less innovation, less investment and less growth.

Imagine if we could turn the clock back. Would anyone propose the adoption of a public policy that would allow today's narrowband telephone companies to be able to close their pipes to Internet competitors?

History has also shown that when technologies converge there is a danger that outmoded regulatory structures made for a different time and technology may have a damaging

impact on investment, technology and business decisions, and consumer choices. These decisions should be based on market, rather than regulatory considerations.

The convergence that is coming so rapidly to our country will not long tolerate these disparate and now outmoded regulatory structures governing this country's communications infrastructures.

So we as a country are confronted with a choice: do we move toward an open marketplace free of entry barriers and reliant upon competition among thousands of suppliers all devoted to satisfying rapidly changing consumer tastes, or do we move toward a closed marketplace where success is determined by ownership of one of the two wires into the home?

### **The Solution: Enabling Competition**

This debate is about enabling competition. We do not need broad, complex regulatory structures -- particularly in such a dynamic industry. Market-driven policies need only a few baseline principles from policymakers--minimal requirements needed to ensure consumer choice. One such principle is open access, which has proved its worth in making the Internet what it is today. If we preserve open access in broadband Internet access much of the rest of the current regulatory structure could be safely eliminated.

If we want to continue the Internet's exciting and explosive growth, the best interests of consumers must remain the focus for this new medium and our industry. Throughout the online world, free-market competition and freedom of consumer choice have been the dominant genes guiding the growth of this phenomenal new medium. If we move into the broadband future wisely, the Internet will continue to grow and innovate -- creating an even greater consumer experience and a medium we can all be proud of.



Thank you again for giving me this opportunity to share my views with you. I look forward to your questions.